



# MOUNTAIN TOP UNIVERSITY

*E-Goursware*



## SCHOOL OF HUMANITIES, MANAGEMENT AND SOCIAL SCIENCES



ACC 101 - INTRODUCTION TO ACCOUNTING I by DR ONICHABOR PIUS is licensed under a [Creative Commons Attribution-NonCommercial 4.0 International License](https://creativecommons.org/licenses/by-nc/4.0/).

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# COURSE GUIDE

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**COURSE TITLE:** Introduction to financial  
accounting

**COURSE CODE:** ACC 101

**LECTURER(S):** DR ONICHABOR PIUS





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# COURSE OBJECTIVES

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## GENERAL INTRODUCTION AND COURSE OBJECTIVES

This course aims at explaining the basic accounting concepts and conventions. It explains how the financial accounts information are extracted from the source documents to the subsidiary books, then ledgers and finally the extraction of the trial balance. It explains the basic principles underlying accounting entries and the preparation of financial statements. The course requires basic knowledge in statistics and mathematics.



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# LECTURE ONE

## REVIEW OF BASIC CONCEPTS

### 1.0 Introduction

This lecture focuses on basic concepts that will be useful in the subsequent lectures. The starting point will be to treat some general concepts and conventions like going concern concept, accrual concept materiality concepts, consistency concept, conservatism concept, historical cost concept, money measurement concept, periodicity concept, realization concept, double entry concept etc

### Objectives

At the end of this lecture, students should be able to:

1. explain in details the various concepts as stated above;
2. explain the relevance of the concepts
3. distinguish between concepts and conventions.

### Pre-Test

1. Define accounting concepts and accounting conventions
2. What is the difference between accounting concepts and accounting conventions?
3. What do you understand by double entry?

## CONTENT

### 1.1 Accounting

Accounting involves the systematic process of recording, summarizing, analyzing, and reporting financial information, including profit and loss for a given time period and a company's assets and liabilities. American CPA

### EXAMPLES OF ACCOUNTING CONCEPTS.

Accounting concepts are the generally accepted accounting principles that governs the preparation of financial statements such that unless otherwise stated, it is assumed that the preparation of all financial statements has been prepared in complete compliance with these principles.

The four fundamental concepts are:

**1.1 Accruals concept:** revenue and expenses are recorded when they occur and not when the cash is received or paid out;

**1.2 Consistency concept:** once an accounting method has been chosen, that method should be used unless there is a sound reason to do otherwise;



1.3 **Going concern:** the business entity for which accounts are being prepared is in good condition and will continue to be in business in the foreseeable future;

1.4 **Prudence concept** (also conservation concept): revenue and profits are included in the balance sheet only when they are realized (or there is reasonable 'certainty' of realizing them) but liabilities are included when there is reasonable 'possibility' of incurring them.

Other concepts include

1.5 **Accounting equation:** total assets equal total liabilities plus owners' equity;

1.6 **Accounting period:** financial records pertaining only to a specific period are to be considered in preparing accounts for that period;

1.7 **Cost basis:** asset value recorded in the account books should be the actual cost paid, and not the asset's current market value;

1.8 **Entity:** accounting records reflect the financial activities of a specific business or organization, not of its owners or employees;

1.9 **Full disclosure:** financial statements and their notes should contain all relevant data;

1.10 **Lower of cost or market value:** inventory is valued either at cost or the market value (whichever is lower);

1.11 **Maintenance of capital:** profit can be realized only after capital of the firm has been restored to its original level, or is maintained at a predetermined level;

1.12 **Matching:** transactions affecting both revenues and expenses should be recognized in the same accounting period;

1.13 **Materiality:** minor events may be ignored, but the major ones should be fully disclosed;

1.14 **Money measurement:** the accounting process records only activities that can be expressed in monetary terms (with some exceptions); an audit trail

1.15 **Realization:** any change in the market value of an asset or liability is not recognized as a profit or loss until the asset is sold or the liability is paid off;

1.16 **Unit of measurement:** financial data should be recorded with a common unit of measure (dollar, pound sterling, naira, yen, etc.).

### Post-Test

1. What do you understand by the following accounting concepts: going concern, accrual, consistency, prudence concepts?
2. What are accounting conventions
3. What is the difference between accounting concept and accounting convention



**Recommended books:**

- **Frankwork book 1 and 11**
- **Financial accounting made simple by Robert O. Igben**
- **Financial accounting with Ease by Onafowokan Oluyombo**
- **Introduction to Financial accounting by O.J.Akinyomi**





## LECTURE TWO

### Source documents and books of original entry

#### 2.0 Introduction

This lecture focuses on introducing the students to source documents from which accounting information are generated, entered into the books of original entry or subsidiary books or prime books. It is important to note that proper accounting records can only be kept if accounting transactions are tracked from the source document and recorded appropriately in the subsidiary books. Finally, the accounting information are posted from the subsidiary books into the principal book of account called the ledger. The ledger is where the double entry transaction is perfected.

#### Learning Objectives

At the end of this lecture students should be able to:

Know the role of source documents

Know the nature and functions of books of original entry

Prepare day books and Journals

Transfer from the books, of original entry to the relevant ledgers

Know the effect of trade discount and value added tax (VAT) on sales and purchases.

#### Pre-Test

1. Define source documents as used in accounting
2. Explain the various source documents and their uses.
3. Explain the various types of books of original entry and their uses.

#### CONTENT

**2.1** Source documents are documents from which evidence of accounting transaction can be extracted. Examples include receipts, payment vouchers, bank statements, cheques counterfoils, sales invoice, goods received note, goods delivery note, purchase order, bin card etc.

Books of original entry are documents or records or books where transactions are first recoded before they are finally posted into the ledger accounts through the process of double entry. Examples of books of original entry are the: sales daybook, purchases daybook, return inward book, return outward book, journals proper, cashbook, etc.

#### 2.2 Main Source Documents

The main source documents that are used for recording in the books of original entry are:



Sales Invoices

Purchases Invoices

Credit notes

Debit notes

Payment vouchers

Petty cash vouchers

Bank Pay-in-slips

Cheque counterfoils

Receipts

Monthly bank statements

Others which may not contain full information to make recording possible in the books of original entry are

Purchase order

Delivery note

Goods Received Note

Bin Card

### **2.3 Sales Invoices**

A sales invoice serves as the source document to record in the sales day book. This is a document sent by the seller to the buyer (usually for credit sales) requesting the buyer to pay for the amount stated on the invoice for goods or services rendered to him. Usually bills are sent for service rendered while invoices are sent for goods sold. A Sales invoice would contain the following particulars

Name and address of the seller and purchaser

Date of the sales

Description and quantity of goods sold

Unit price and total amount of invoice

Amount charged for value added tax (VAT)

Conditions and terms of sales such as trade discount, cash discount and the date payment fall due.

Signature of the parties

### **2.4 Main Books of Original Entry**

(i) Sales day book



- (ii) Purchases day book
- (iii) Sales returns book/Returns inward book
- (iv) Purchases returns book/Returns outward book
- (v) Journal
- (vi) Cash book
- (vii) Petty cash book

In a computerized accounting system the books may not be in printed form but stored in a computer memory.

## **2.5 Sales Day Book**

Sales day book is the book of original entry that records credit sales. The source document is the duplicate of the invoice issued to the customer. The volume of daily sales normally demands that it is issued first to collate a period's sale before being transferred to sales ledger accounts. The sales day book shows the following information:

- (i) A list of the sales invoices in the order in which they are issued
- (ii) The date of issue
- (iii) The name of the customer
- (iv) The number of the invoice
- (v) The sales ledger number to which the individual accounts are posted
- (vi) The net amount of the invoice after deducting trade discount and VAT

The sales day book does not show the description of the goods. These are contained in the invoice.

## **2.6 Uses of the Journal**

The journal is used for the following:-

Opening and closing entries

Transfer from one account to the other

Purchases and sales of non-current assets on credit.

End of period adjustments

Correction of errors.

## **Post-Test**

1. Describe the content of a typical sales invoice.



## LECTURE THREE

### 3.0 Forms and structure of businesses:

This lecture focuses on introducing the students to the various forms of business organization. These include the sole proprietorship, partnership, limited liability company and government public enterprises. public enterprises are organization owned and managed by government appointed directors.

#### Learning Objectives

At the end of this lecture students should be able to:

Know the advantages and disadvantages of sole proprietorship

Know the types of partnership, formation, content of deed of partnership, advantages and disadvantages of partnership

How limited liability companies are formed, the advantages and disadvantages

The features of public enterprises, the advantages and the disadvantages.

#### Pre-Test

1. State the characteristic of a sole proprietorship
2. State the advantages and disadvantages of partnership
3. What are the advantages and disadvantages of a limited liability company

#### CONTENT

### 3.0 Forms and structure of businesses:

**3.1 Sole proprietor:** the oldest form of business. The business is owned by one person who provides all the capital. The advantages lies on fast decision making as the proprietor does not need to consult anybody before taking decision, capital requirement is usually small and can be easily provided by the proprietor from personal savings or from relations. The sole proprietor reap the entire profit if the business is successful.

3.1.1 The disadvantages are: the death of the owner may mean the end of the business, there is also the disadvantage of limited capital for expansion. In the event of failure of the business, the sole proprietor reaps the losses alone, he also does not enjoy the limited liability status.

3.2. Partnership: This is an association of two or more people carrying on business together with the aim of making profit. The relationship between the partners is governed by the content of the partnership Act of 1890. It spells out the capital contribution by the partners, the profit sharing ratio, how the partnership should be brought to an end if need be, how a new member could be admitted, etc.





**3.2 .1** The advantages include large sum of capital is available from partners contribution, the death of a partner may not mean the end of the business. The major disadvantage is that partners do not enjoy the limited liability status.

### **3.3 Limited liability company:**

#### **3.3.1 Advantages of Limited Liability Company are:**

- (a) The liability of the shareholders is limited to the amount they have subscribed to the firm's capital if the company goes bankrupt.
- (b) It can raise substantial amount of capital from the numerous shareholders or from financial institutions.
- (c) The chance of survival is high because the company is controlled and managed by highly skilled professional management team appointed by the Board of Directors who are elected by and answerable to the shareholders.
- (d) The limited company is a separate legal entity distinct from its members. It can sue and be sued in its name.
- (e) Unless it is wound up, a limited company has perpetual succession so that it is not affected by the death, bankruptcy, mental disorder or retirement of its members.
- (f) Floating charges can be created by a limited company.
- (g) Shares in a public company can be transferred without the consent of other members.

#### **3.3.2 Disadvantages**

- (a) Formation of Limited Liability Company requires costly legal expenses
- (b) Decision making may be delayed due to bureaucratic bottlenecks.
- (c) The members of the company have no power to manage its affairs.
- (d) Much legal and publicity formalities are observed e.g. filing of annual returns, annual general meeting etc.





### 3.4 Public enterprises:

3.4.1 Public Enterprises The public corporation is an enterprise owned by and controlled by the government. The government provided the capital for the company. The Commissioner (Minister) acting on behalf of the State or Federal government appoints the members of the Board of Directors who in turn formulate policies within the enabling Act establishing the Corporation and the framework. Examples of public corporation are Ghana Airways, the Nigerian Railway Corporation, the Nigerian Ports Authority and the Nigerian National Petroleum Corporation.

#### 3.4.2 Advantages

- (a) Some activities such as the generation of electricity, provision of port facilities and rail transport services involve huge financial considerations which the private entrepreneurs cannot provide. These facilities must be provided to quicken the pace of economic development and industrial growth.
- (b) It enables some natural resources, especially minerals to be efficiently exploited and effectively managed.
- (c) Some essential goods or services if left in the hands of private business may not be sufficiently provided or may be provided at exorbitant prices. Thus, the common people will not be able to afford them as a result of which their conditions of living will worsen.
- (d) The public company can borrow money externally by issuing bonds or debentures. This is not possible for the private company.

3.4.3 The major disadvantage of public enterprises is that members of the Board of Directors are political appointees to control and manage the corporation. At times, they may not possess the relevant skills to manage such organization efficiently. Some members of staff are appointed on political grounds and quota basis, resulting in low quality of labour. The performance of public enterprise is poor when compared with the private sector. Most of the public enterprises are being run at a loss as the motive for establishing them is not for profit. They receive subventions from the government



## **4.0 LECTURE FOUR:**

### **Application Of Double Entry Bookkeeping And The Trial Balance**

#### **Introduction**

In accounting, every financial transaction affects two accounts. While one of the accounts is receiving benefit, the second one is giving out equivalent amount of benefit. The receiving account is debited while the account giving out benefit is credited. The process of debiting one account and crediting the other is called double entry.

#### **Learning Objectives**

At the end of this lecture candidates should be able to:

1. Understand the double entry principle
2. Use the principle of double entry to post transactions to the relevant ledger accounts
3. Differentiate between various classes of accounts
4. Balance the ledger accounts
5. Extract the Trial Balance.

Pre-test:

What is double entry concept

What accounting entries will be made when stock is purchased for N50,000 on credit

What accounting entries will be made when N45,000 payment is made to a creditor for goods supplied.

#### **CONTENT**

### **4.0 Principle of Double Entry**

Double entry principle states that for every debit entry, there must be a corresponding credit entry and vice versa. Double entries are made in the ledger accounts.

- a. the nature of ledger,
- b. the types of ledger
- c. functions of ledger accounts.

### **4.1 Ledger Accounts**



A ledger is the book containing a group of accounts. It contains the permanent records of the assets, liabilities, income, expenses and capital of a business entity. The accounts in a ledger are those to which entries are posted from the subsidiary books.

Importance of the ledger accounts

- (i) They serve as the means of keeping permanent records of assets, liabilities, income and expenses.
- (ii) They provide relevant information that is required to prepare the income statement and the statement of financial position.
- (iii) They give the origin of every transaction and the parties involved.
- (iv) They show the details of the movement in each account. For instance, a bank account will show what amount had been deposited or how much had been withdrawn and for what purpose.
- (v) The Trial Balance is extracted from the ledger accounts at the end of the accounting period.

## 4.2 Types of Accounts:

Accounts can be grouped under three main headings

Real Accounts

Personal Accounts

Nominal Accounts

**Real Accounts:** These are accounts relating to tangible things that can be seen, felt, touched and moved in most cases e.g. cash, cars, goods etc. The rule of double entry to these types of accounts is Debit, when there are additions, that is, when more of these items are acquired. Credit, when these items are disposed off, either by selling them off, when damaged beyond use or when given out as gift.

**Personal Accounts:** These are accounts dealing with persons, corporate bodies or even partnership. Before these accounts can exist, there must be credit transactions unlike the real accounts where both cash and credit transactions are involved. In personal accounts, the accounts are opened only if the persons concerned purchase goods or services on credit or if they sell goods or services on credit. There is no need of writing or recording the names of persons who have purchased on cash basis.

This amounts to waste of resources since the company has nothing to do with the persons



again. The case will be different if payment is deferred till a future date, it will be necessary to know those who owe and those who are owed as the case may be. Nominal Accounts:

These are the accounts opened for gains or losses. They are not real or personal but are for profits and losses items. We only talk of benefit arising from these accounts as a result of the services rendered. Examples are rent, salaries, electricity, discounts, drawings etc.

### 4.3 Types of Ledgers

Ledgers can also be classified into the following four groups:-

- (a) Sales Ledger or Trade Receivables Ledger This contains all the personal accounts of customers otherwise referred to as trade receivable.
- (b) Purchases Ledger or Payables Ledger This contains the personal accounts of suppliers of goods and services, otherwise referred to as trade payables.
- (c) Private Ledger The Private ledger contains details of capital accounts, drawings account, loan account and investment account. Usually only the senior managers have access to these accounts in order to prevent office staff from seeing details of the items contained therein.
- (d) General Ledger The general ledger, also referred to as the nominal ledger, contains the remaining accounts such as:-

Nominal accounts, relating to expenses, wages, rent, sales, purchases, bad debts accounts; and

Real accounts; relating to assets such as land and buildings, motor vehicles, inventories, plant and machinery.

### 4.4 Application of the double entry principle

To record a transaction using the double entry principle the following steps must be taken.

- (i) Ensure that a transaction has actually taken place. That is at least two parties are involved and the transaction can be measured in monetary terms.
- (ii) Identify the two main accounts involved. That is, under which two main subject matters the transaction can be divided.

Post-test

Adeolu Enterprises purchased a motor car for N750,000 cash.

What are the two accounts involved.?



The transaction can be measured monetarily and it involves at least two parties

Two main subject matters can be identified

(a) Motor car was purchased

(b) Cash was paid

The double entries involved are:

DR    motor car account

CR    cash account





## **LECTURE 5:**

### **5.0 Control Account or Total Accounts**

#### **Introduction**

In a small organization it may be possible for one person to maintain all the ledger accounts. Where a business maintains a large number of accounts it will become necessary to divide the ledger into sections and to assign the recording of each section to different persons. The main areas to which such ledgers can be divided are in the subsidiary ledger, trade ledger, trade receivables ledger, trade payables ledger and general ledger.

In very large organizations, the sub-division may further be divided among employees. Where this type of divisions takes place, it will be necessary to institute controls on the accuracy of the postings made to each ledger. This is achieved by maintaining total accounts for trade receivables and payables in the general ledger. These total accounts are referred to as control accounts.

#### **Learning Objectives**

At the end of this lecture the students should be able to:

- Explain control accounts and know their usefulness
- Know the main types of control accounts
- Prepare control accounts from given information
- Describe trade receivable statement or statements of account
- Prepare trade receivables statement or statement of accounts.

### **5.1 The Nature and Functions of Control Accounts**

A control account is an account, the balance of which reflects the aggregate balances of many related subsidiary accounts which are part of the double entry system. It is a memorandum record only, it does not form part of the double entry system but it is kept using double entry principle. Control accounts can be kept in respect of customers (sales ledger) accounts,



suppliers (bought ledger) accounts and expenses. Control accounts are maintained to facilitate easy detection of errors because they act as a check on the entries in the various ledgers.

Where the Trial Balance totals are not equal, balances in each ledger can be added together and compared with the balance in the respective control accounts. Ordinarily the two should be equal, where there is a difference, such ledger that fails to reconcile with the control account will be investigated rather than all the ledger accounts. Control accounts are also called self-balancing ledgers because the total trade receivables and total trade payables in the general ledger should be equal to the aggregate of the balances in the respective individual accounts in the subsidiary ledger.

### **5.2 Merits of Control Accounts:**

The merits of using control accounts can be summarized as follows:

- They can be used to locate errors more easily
- They make it difficult to commit fraud because they are normally under the control of responsible officers and their preparation is separate from the clerks who maintain the individual ledger accounts.
- They provide information about the total trade receivables and total trade payables thereby making management of the receivables and payables accounts easy.

They allow for account set-off

### **5.3 Sources of Information for Control Accounts Information recorded in control accounts are obtained from:**

- Receivables and Payables accounts
- Returns inwards and outwards accounts
- Bills payable and receivable accounts
- Dishonored cheques
- Cash paid to payables and cash received from receivables (obtained from the cash book).
- Discount received and discount allowed accounts
- Sales day book and purchases day book.

### **5.4 Receivables or Sales Ledger Control Account :**

Sales ledger control account is the account containing the summary of all trade receivables or



customers' accounts. What is posted to the debit side of this account is the aggregate of all the items recorded on the debit side of the receivables accounts. The same thing applies to the credit side of the account.

#### Summary of Entries

### 5.5 Debit entries

- (a) Credit Sales from sales day book
- (b) Dishonored cheques from customers
- (c) Debit notes issued

### 5.6 Credits entries:

- (a) Cash received from receivables as recorded in the cash book.
- (b) Discount allowed as recorded in the cashbook
- (c) Returns inwards as recorded in the sales return day book.
- (d) Set off between sales ledger control and purchases ledger control accounts
- (e) Bad debts written off

### 5.7 Trade payables or Purchases Ledger Control Account

This is the account containing the summary of all the accounts of the creditors or suppliers in the purchases ledger.

#### 5.7.1 Summary of entries in the Purchases Ledger Control Accounts

##### Debit entries:

- (a) Payment to customers obtained from the cash book
- (b) Returns outwards
- (c) Cheques paid to suppliers from the cash book
- (d) Discount received from the memorandum column on the credit side of the cash book
- (e) Credit notes
- (f) Transfer between sales ledger control and purchases ledger control accounts. (e) Sales ledger off set)
- (g) Bills payable accepted

#### 5.7.2 Credit entries

- (a) Credit purchases obtained from the purchases day book
- (b) Cash refund from suppliers



(c) Dishonored bills payable

(d) Dishonored cheque

Post-test

- I. State the advantages of control account
- II. List the debit entries in the purchases ledger control account
- III. List the credit entries in the sales ledger control account

